

# **Community Assistantship Program**

**Assessing the Impediments to Success in Sustainable  
Agriculture in the Central Region of Minnesota**

# **Assessing the Impediments to Success in Sustainable Agriculture in the Central Region of Minnesota**

Prepared in partnership with  
Sustainable Farming Association of MN

Prepared by  
Diego Nicola  
Graduate Student

University of Minnesota  
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Center for Urban and Regional Affairs (CURA)  
University of Minnesota  
330 HHH Center  
301--19th Avenue South  
Minneapolis, Minnesota 55455

Phone: (612) 625-1551  
Fax: (612) 626-0273  
E-mail: [cura@umn.edu](mailto:cura@umn.edu)  
Web site: <http://www.cura.umn.edu>

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## Assessing Impediments to Success in Sustainable Agriculture in the Central Region of Minnesota

### **I. Executive Summary**

This report describes the different tasks undertaken in the process of assessing impediments to success in sustainable agriculture. Among such tasks, an outline for strategic planning was developed. We participated in two meetings of the Sustainable Farming Association (SFA) Central Minnesota Chapter Development Committee. At the first meeting we decided to work on several projects aimed at improving the effectiveness and focus of that chapter of the SFA. One project was to research different equity financing options for individuals and groups wishing to farm sustainably. A second project was a review and summary of marketing concepts that may be relevant for sustainably-produced and other value-added agricultural and food products. A third project was a review of the business plan for a marketing cooperative to which a number of the chapter members belong.

### **II. Introduction**

The main project goal was to develop a strategic planning model for use by Community-Based Food Collaboratives. The planning process is intended to overcome impediments to growth and to advance toward their self-defined goals, which are anticipated to fall into the general goal areas of economic, social and environmental sustainability. During the discussions at the committee meetings, we realized that the limitations cited by all the organizations involved in SFA are very similar, and so should be the solutions for such limitations.

One interesting aspect of this project was that we were dealing with three levels of organization: 1) the SFA itself, which is an umbrella organization for producers and groups interested in sustainable agriculture but does not produce or market any agricultural or food products itself, 2) food collaboratives which do market agricultural and food products for their producer members and are affiliated with the SFA, and 3) the SFA farmer-members themselves. We struggled a bit as we tried to decide how much we should focus on helping the SFA itself to define its future role, and how much we should focus on helping one or more of the SFA's affiliated member collaboratives with their strategic planning and marketing issues. We worked closely with the SFA's central chapter development committee and the state SFA executive director Mary Jo Forbord. We also interacted with several key members and employees of one particular food collaborative, which appears to be well positioned for continued operation in central Minnesota. In the interest of confidentiality, we will not identify that collaborative in the published version of this document.

### **III. The Strategic Planning Outline**

The first activity that was conducted by the group was a strategic planning meeting that took place in Wadena, MN. The objective of such meeting was to get started in the planning process, to make an assessment of the current situation, and try to organize efforts towards new goals and activities.

As a preparation for this meeting, we conducted a literature review of the strategic planning process and outlined a summary of the most important things to consider, which we shared with the SFA members. The summary was intended for use in this meeting, but also to remain as a tool for different organizations going through the process.

The meeting in Wadena started with a brief discussion of what each of us though was the purpose of the meeting. We agreed that the purpose was to find ways of promoting sustainable produced and locally produced products. We wanted to discuss ways to support local producers, and to promote the use of these products by people living in the region.

The first exercise was to discuss the trends happening in the market and in the world. For this, we divided the group into three different sub groups with four members each. This exercise took about 45 minutes and the end result was a list of trends, which can also be considered as the “opportunities” and “threats” in a typical SWOT analysis, as these were all external to the organizations.

After that, we discussed the “assets” that the group has, which can also be considered as some of the “strengths” on the typical SWOT analysis.

Finally, we did an exercise of “vision” for the group. The end result for this was three different visions, which were pretty similar from each other. By the end of the exercise someone assumed the role of putting all the different visions together into a general vision statement, which would then be emailed to all the participants.

After lunch we made a list of different actions that could be done in order to start working. After making a list of action, we chose three areas in which we could concentrate and then formed three committees to work in each. The areas are: education, finance and promotion.

Each of the group then met for around half an hour to lay out some actions to take in order to start working on the assigned area. The education committee would work in a program to educate people about sustainable farming. The finance committee will work in trying to achieve financial support for the group and the promotion group will work on designing a brochure for the group.

We designed three committee liaisons, which would be in charge of maintaining communication among the different members of the committee. The new meeting was scheduled for December 4, 2004.

#### **IV. Financing Options**

Following the meeting, we reviewed different financing options that Cooperatives have, looking particularly at the Hiawatha Fund Project as a benchmark. The Hiawatha Fund Project was designed in Southeast Minnesota in order to provide local businesses with a different source of financing, which would involve equity financing instead of the usual debt financing option. A summary of the Hiawatha project is presented below, as well as some other research conducted to see if there were any other equity financing options to consider.

The Hiawatha Fund project was started under the same assumptions and needs that we are looking at in the central Minnesota area, thus it could be used as a model, or at least in some parts of it as some of the problems would be the same and the solutions to solve such problems could also be applied in the central region.

Two of the most important roots of the project are the importance of equity financing as compared to debt financing and the importance of developing new sources of sustainable equity capital to replace an unhealthy dependence on debt financing in rural communities.

Equity financing differs from debt financing in different ways. Equity financing is said to be “patient”, thus equity capital is sometimes referred as “patient capital”. When a business is financed with debt, it is required to make rigid payments, which could sometimes force owners into making short-term decision that are not the best in the long run. Equity investment is patient because there are no predetermined repayment schedules and so it can wait for economic success. Another advantage of equity financing is that is flexible, as it does not require tangible collaterals, and so it can be used to finance intangibles such as education, marketing and technology.

The Hiawatha fund grew out of a task force was formed in October 1999 with 20 participants which included people representing:

- The Experiment in Rural Cooperation,
- U of M School of Law,
- U of M Department of Family Social Sciences,
- U of M Department of Applied Economics,
- U of M Humphrey Institute,
- U of M Carlson School of Management,
- Houston County Extension Office,
- First National Bank of Plainview,
- U of M Extension Service,
- Institute of Local Self Reliance,
- Minnesota Department of Trade and Economic Development,
- a farmer, and
- a lead consultant.



The purpose of this task force was to start a feasibility analysis of the idea in the region for which the lead consultant conducted almost 30 interviews with local potential investors and local business owners. This analysis took a couple of years and was one of the bases for the Hiawatha business plan. The Feasibility analysis put forth two key recommendations:

1) **Create a pool of “angels”** – Individual investors who would make personal equity investments as they see fit. A local credit organization would broker these contacts but not dictate investment terms.

2) **Create a regional investment fund** (similar to a mutual fund) for small investors of \$250 or more. These funds would be pooled and in turn reinvested into small and medium sized businesses in the region that share a mission of regional wealth creation.

After this study, a business plan was finished in 2003 and was developed by a Steering Committee composed of 9 people, and the lead author of such a plan was Ken Meter.

The Business Plan for the Hiawatha Fund has as its main goals:

1. Build wealth in local communities across the region.
2. Create a pool of investment resources to help transform the region.
3. Build new social and economic connections in the region.
4. Enhance security by meeting local needs with local resources.
5. Protect small businesses and independent farms.
6. Connect investment fund to campaigns to boost local ownership and purchasing.
7. Extend equity financing to locally owned businesses.
8. Provide an equity investment vehicle that local businesses will use.
9. Offer investment vehicle to local investors who wish to invest locally.

## **V. Marketing**

In the marketing area, the first task we were assigned was to develop an informational brochure for the group and its product. A draft of the brochure was developed after the meeting in Wadena and was presented to the members in the next meeting of the group. Overall, there was not total agreement on whether the brochure was good or not, and whether we should keep working on it or not. The main point of discussion was that the marketing group as a whole was not in agreement on what was the group's goal, and thus it was very difficult to prepare a brochure without a clear objective. This led to a very good discussion on the marketing focus that the group should be taking, as well as some other topics as for example the name of the group and the activities it should be following.

Following the first committee meeting Lazarus and Nicola attended a training session on assisting new food and farming ventures that was conducted by Iowa State University Extension in Decorah, IA on November 11, 2004. After the second SFA committee

meeting, we then drew on the Iowa State materials to prepare an outline of marketing concepts that the group could consider when planning activities, as well as an example of a brief list of activities that the group could be looking at in the future. The marketing material was submitted for review to a marketing professor in the Carlson School of Management and is presented in Appendix 1.

Dr. Lazarus also attended the Minnesota Grown Conference conducted by the Minnesota Department of Agriculture and held on the University of Minnesota's St. Paul campus on March 15, 2005. The keynote speaker at the conference was Joel Salatin, a Virginia farmer who discussed niche agricultural production within a framework of relationship marketing in general. He listed essential elements of relationship marketing: trust, intimacy, openness, respect, discovery, sensory appeal, loyalty to values, reciprocal relationships, and charity. Another interesting session at the conference was by Brad Wedge of Wedge Nurseries, who provided a number of practical tips on pricing niche agricultural products at the retail level. For example, he provided tables that can be used to do a breakeven sales analysis of the financial implications of raising or lowering prices.

Pricing appears to be a key issue that the SFA wrestles with. From a philosophical perspective, the SFA leaders have expressed a desire to keep their sale prices low to be fair to their customers, many of who are also their neighbors in rural Minnesota. On the other hand, a lack of revenue appears to be constraining the growth and prosperity of the farms and groups comprising SFA. "Getting prices right" may be one way to increase revenues and brighten the future prospects of the SFA. We have identified three sets of material that may be useful to farm operators and groups such as the SFA membership: 1) a 22-page section of the notebook from the Iowa State training session, 2) Brad Wedge's 12-page outline, and 3) the book The Strategy and Tactics of Pricing: A Guide to Profitable Decision Making, by Thomas T. Nagle and Reed K. Holden (Prentice-Hall, 2002), which is used to teach pricing to MBA students.

## **VI. Food Collaborative Business Plan Review**

The goal of our CAP project was to: "Develop a strategic planning model for use by Community-Based Food Collaboratives". The planning process is intended to overcome impediments to growth and to advance toward their self-defined goals, which are anticipated to fall into the general goal areas of economic, social and environmental sustainability."

After discussions with the manager, another employee, and a member of a food collaborative affiliated with the SFA, we offered to review the business plan that that collaborative had completed in January 2004 (Appendix 2). Our thinking was that we might be able to bring an outside perspective that could help them to increase sales and otherwise to progress more rapidly toward their goals. At the same time, this exercise also gave us a chance to test out a few ideas for assisting other food collaboratives in the future. The collaborative achieved total sales revenues of around \$200,000 in 2004.

## **VII. Outcomes**

The outcomes of this project include 1) a summary of the “patient capital” concept for equity financing, 2) a review of a food collaborative’s business plan and 3) a summary of marketing concepts that may be used by a farm or food business.

The summary of the marketing concepts could be used both by the SFA group as a whole and by each of the organizations involved in this group. Aside from any usefulness of the report itself, the discussion of the issues related to it helped us to better understand the practical challenges involved when a voluntary organization such as the SFA does strategic planning.

The review of the business plan will be helpful particularly to one of the organizations, but as it is the marketing channel for most of the producers in the group it will ultimately benefit more than the Cooperative itself.

Finally, the equity financing summary will help the group to guide future efforts to find other financing options, that seem to be one of the most important limitations for the group.

## VIII. APPENDICES

### **Appendix 1: Marketing Concepts**

There are certain marketing questions that are always useful to ask ourselves when evaluating how good we are doing on our marketing activities. Some examples of these questions are:

- 1) What are the products we are trying to market?
- 2) How do our products differ from other products in the market? What are the benefits of our products to consumers?
- 3) Who is our target customer? Consumers? Restaurants? Grocery stores? All of them?
- 4) Where are our customers located?
- 5) How do we describe our customers? What is their profile?
- 6) How do we get the products to our customers? What is our distribution channel?

Breaking down marketing into its four key components can help. These “four P’s of marketing” are: 1) product; 2) promotion; 3) place (distribution); and 4) price.

- **Product** – what is produced to satisfy the needs of customers. A product is any object or service offered for acquisition that satisfies a need. Successful enterprises hinge on developing products that consistently satisfy needs. Products must also be differentiated from those of competitors in ways that customers believe make them better. If we differentiate our product giving it a feature that customers do not find valuable, then we will be in trouble trying to sell it.

Products should be thought about on three levels:

- 1) *The actual product* - its features (i.e. size) and attributes (i.e. organic)
- 2) *The core product* – needs that are met or benefits that are received (i.e. better health)
- 3) *The augmented product* – measures taken to help customers put the product to sustained use (i.e. recipes)

Success in product development hinges on two considerations. One is developing products that consistently satisfy the needs of customers while providing them with direct and valuable benefits. The other is differentiating products by developing features and attributes that make them better than competitors. The best way to develop a new product is starting from the consumer’s needs, and moving backwards until the product is developed.

- **Promotion** – how demand is created for products among potential customers. Promotion is any communication that helps make a sale and build customer relationships. Examples include brochures, newspaper ads, or providing product

samples. Promotion is marketing in the purest sense of the term. Successful promotions increase consumer perception of **value**, thereby increasing demand and willingness to pay premium prices.

The best way to increase consumer perception of value is by promoting the unique differences of products from those of competitors. Creating perceived differences helps products be less price sensitive. It also makes products harder for others to effectively compete against. If promotional activities do not adequately differentiate products, the supplier will simply be another “me too” company forced to compete based on price to gain or maintain markets. When deciding promotions, we should keep in mind who are we trying to communicate with, and how are we planning on doing so. It is important to get the message to the decision makers, and also to make sure we are effectively communicating what potential consumers find of value.

- **Place (distribution)** – where products are sold, including marketing channels through which products are moved to customers. Place involves where customers purchase products, plus the transportation functions to move products to locations where they are sold. Examples include farmers’ markets, roadside stands, on-farm sales, local meat lockers, restaurants, or grocery stores. Place also involves the number and types of markets served. Both impact a key aspect of marketing, which is physically transporting product from where it is produced to locations where customers make purchases. Transportation of products utilizes what are known as distribution channels. The three common distribution channels include consumer direct, retail, and foodservice.
- **Price** – what is charged for products. In the narrowest sense, price is the amount charged for a product. More broadly, it is the sum of all the values involved in a product. Price is the only element in marketing that produces revenue; all other elements represent costs. Pricing and price competition is often the number one problem facing food and farming ventures.

It is important to guard against under pricing for another reason: price lends a **value** to the product in the mind of the customer, and under pricing can lead the consumer to believe the item is of little value. When pricing products, suppliers place a value on their product and company. They are not just selling a product. They are selling a package that includes the unique features and benefits of the product, company, and customer service.

When trying to price higher than competitors, it is important that the consumer understand why it is that the price is higher. We need to communicate those additional benefits that make our products more expensive than competitor’s.

### **Other important concepts:**

**Decide Who You Are.** Create a mission statement and determine what the company/product stands for. What makes you unique? What makes your products unique? Once determined, convey this information at every point of customer contact

**Target customer:** It is important to understand who are we selling to, or more precisely, who is buying our products. There are some ways to identify and describe our target customer. We can do a survey to all our current customers and try to generate a general profile of our customers. Once we know it, then we can put more effort on reaching this type of consumer and avoid incurring unnecessary expenses communicating with customers that would ultimately not buy our products. For example, if we know that many of our customers read certain newspaper, or are part of a certain association, then we can try to advertise in that newspaper, or contact that association, as our chances of transforming a potential customer into a buyer are higher.

**Why are they buying our product:** It is also important to understand what we should be communicating to our customers. For example if in the survey we find out that most of our customers give more value to taste than to origin of the products, we should emphasize on communicating our benefits in taste. This would be more effective than featuring origin or other features that our customers do not really value.

**Communication:** Communications must be consistent. We should find out what is it that our customers value and communicate this features/attributes consistently. All the materials such as flyers, brochures, advertising, etc, must focus on communicating those attributes valuable for the consumers as a way to increase the value of the product for them.

### **Example of some actions to follow for XYZ Farm Coop.<sup>1</sup>**

- Conduct a customer survey to find out who are our customers, why do they buy from us, where do they shop, what do they value most (ex: taste, price, convenience, variety, origin) and what suggestions do they have to improve XYZ's services.
- Review XYZ communications, to see if what XYZ is communicating is what these customers value the most.
- Target this type of customer in all XYZ's activities, from product development to communication.
- Identify organizations such as churches, clubs, associations where this type of consumer can be reached and create a link with these organizations.

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<sup>1</sup> XYZ is not the real name of this coop. The name have been obscured to protect confidentiality.

## **Appendix 2: Review of The XYZ Farm Cooperative Business Plan**

This information is confidential, but available on request to qualified organizations. To receive a copy, contact:

William F. Lazarus  
Professor and Extension Economist  
Department of Applied Economics  
University of Minnesota  
249 Classroom Office Building  
1994 Buford Avenue  
St. Paul MN 55108-6040  
Tel: 612-625-8150  
Fax: 612-625-6245  
Email: [Wlazarus@apex.umn.edu](mailto:Wlazarus@apex.umn.edu)